

Exhibit No.:
Witness: Henry Fayne
Type of Exhibit: Surrebuttal Testimony
Issues: Rate Design
Sponsoring Party: Noranda Aluminum, Inc.
Case No.: ER-2014-0258
Date Prepared: February 6, 2015

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Filed
March 30, 2015
Data Center
Missouri Public
Service Commission

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In the Matter of Union Electric
d/b/a Ameren Missouri's Tariff to
Increase its Revenues for Electric
Service

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Case No. ER-2014-0258

Surrebuttal Testimony of Henry Fayne

NON-PROPRIETARY (NP) VERSION

On behalf of

Noranda Aluminum, Inc.

February 6, 2015

Noranda Exhibit No. 603 NP
Date 3/11/2015 Reporter SR
File No. ER-2014-0258

SURREBUTTAL TESTIMONY OF HENRY W. FAYNE

1 **Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A: My name is Henry W. Fayne. My business address is 140 East 83rd Street, New
3 York, New York 10028

4

5 **Q: HAVE YOU FILED DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A: Yes, I have

7

8 **Q: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

9 A: The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
10 Ameren witness Robert Mudge.

11

12 **Q: PLEASE DESCRIBE THE ISSUES RAISED IN MR. MUDGE'S**
13 **TESTIMONY THAT YOU INTEND TO ADDRESS.**

14 A: Mr. Mudge simply repeats the criticism he raised in Case EC-2014-0224. Not
15 surprisingly, his criticism of the electricity cost data provided in my testimony is
16 still incorrect, misleading and irrelevant to the evaluation of Noranda's proposal
17 in this proceeding. Moreover, the conclusions he draws from the comparative
18 analysis of overall cost of production continue to be irrelevant and incorrect.

19

20 **Q: WHY DO YOU DISAGREE WITH MR. MUDGE'S ASSERTION THAT**
21 **THE ELECTRICITY COST DATA REFLECTED IN YOUR DIRECT**
22 **TESTIMONY IS MISLEADING?**

1 A: Mr. Mudge misrepresents how Noranda's rate request was determined and what
2 the comparative electricity cost data was intended to show. Contrary to the
3 characterization Mr. Mudge fabricates, the determination of the reduced rate was
4 not determined based on a comparison of the cost of other smelters. As described
5 in the testimony of Mr. Boyles and surrebuttal testimony of Mr. Smith, the
6 proposed rate was determined based on a robust stress test designed to determine
7 what power rate Noranda could afford given the volatility of the LME price of
8 aluminum. The introduction of comparative electricity costs among smelters as
9 shown on Exhibit HWF-1 included in my direct testimony was not intended to be
10 determinative, but rather was intended to shown that the proposed rate was
11 reasonable in the context of the industry. And that is exactly what it shows; at
12 \$32.50/MWh, the cost of electricity to New Madrid would be reasonably within
13 the range of the cost to other smelters in the U.S. and slightly above the average
14 rate smelters receive globally.

15
16 **Q: DO YOU DISAGREE WITH OTHER ISSUES MR. MUDGE HAS RAISED**
17 **REGARDING THE COST OF ELECTRICITY DATA YOU PROVIDED?**

18 A: Yes. In his testimony, Mr. Mudge criticizes the cost data because it does not
19 reflect the risks and costs embedded in the various power supply arrangements
20 such as investment commitment, employment commitments, closure penalties and
21 market risk. First, it is important to note that Noranda did make comparable
22 commitments as part of its request in Case EC-2014-0224 and, more importantly,
23 Mr. Smith has confirmed those commitments in his surrebuttal testimony. Thus,

1 the comparison of the proposed rate is in fact on an apples-to-apples basis since
2 the “risks” would be comparable. But Mr. Mudge’s criticism of the cost data is
3 simply a red herring. For even under the current rate structure, Noranda has
4 significant risk related to its cost of electricity. As I pointed out in Case EC-2014-
5 0224, in 2011, the cost of electricity to Noranda was \$33.65/MWh. In 2013, the
6 cost was \$43.50/MWh, an increase of more than 31% in just 2 years.

7

8 **Q: YOU STATED EARLIER THAT THE CONCLUSIONS MR. MUDGE**
9 **DRAWS FROM HIS ANALYSIS OF OVERALL COST ARE INCORRECT**
10 **AND IRRELEVANT. PLEASE EXPLAIN THE BASIS OF YOUR**
11 **DISAGREEMENT.**

12 A: First, and most importantly, as I already explained, the determination that

13 ** _____
14 _____
15 _____
16 _____

17 _____ ** How Noranda compares to others is not relevant to that
18 determination. As Mr. Boyles demonstrates, ** _____

19 _____
20 _____ **

21

22 Second, Mr. Mudge presents comparative overall cost data in an attempt to
23 demonstrate that non-electricity factors are more consequential in determining the

1 viability of a smelter. Once again, he reaches that erroneous conclusion by
2 comparing the cost profiles of various smelters that have shut down within the last
3 6 years. Although it is true that the actual performance and success of a smelter
4 depends on the price of aluminum and its overall cost, as I explained in my direct
5 testimony, it is the cost of electricity that most significantly determines the
6 ongoing success or viability of an aluminum smelter, particularly in the depressed
7 aluminum market we have been experiencing.

8
9 **Q: PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION THAT IT IS**
10 **THE COST OF ELECTRICITY, NOT THE OVERALL COST, THAT IS**
11 **THE MOST SIGNIFICANT DETERMINANT OF A SMELTER'S LONG**
12 **TERM VIABILITY.**

13 **A:** Mr. Mudge draws his conclusion from a purely academic interpretation of CRU
14 data. I draw my conclusions based on working directly with a variety of smelters
15 for the past 10 years.

16
17 My recent experience supports my conclusion. Ormet shut down its Hannibal
18 smelter in October 2013 when the Public Utilities Commission denied its request
19 for a lower power rate. Ormet had already negotiated significant reductions in its
20 other costs (not reflected in the CRU historical data), but securing a new power
21 deal was the final hurdle, which it failed to meet. In fact, it was the inability to
22 reduce the cost of electricity that resulted in the closure of the Hannibal smelter.

23

1 Similarly, when the West Virginia Public Service Commission approved a special
2 rate for Century's Ravenswood smelter in 2013, the Company decided not to
3 reopen the smelter because the power rate was not as low as they had requested
4 and, therefore, would not be sufficient to allow the smelter to weather and remain
5 viable in the LME price cycles. Although Century intended to address other costs
6 as well, it was the cost of electricity that was determinative.

7
8 And finally, Century decided to keep operating the Hawesville and Sebree
9 smelters in Kentucky only because the Kentucky PSC allowed them to terminate
10 their long term contract with Big Rivers, despite the adverse consequences to Big
11 River's other customers. Simply put, it was the lower power rate that supported
12 Century's decision to keep the smelters in operation.

13
14 **Q: PLEASE SUMMARIZE YOUR CONCLUSIONS.**

15 **A: **** _____
16 _____ ** With a \$32.50/MWh rate, Noranda would have
17 a cost of electricity comparable to other smelters in the U.S and globally. The
18 experience in the aluminum industry confirms that the viability of a smelter
19 depends primarily on the cost of electricity reflected in the smelter's power supply
20 arrangement.

21
22 **Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 **A: Yes.**

NP